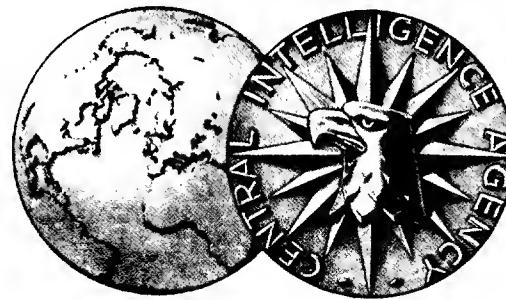


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REVIEW OF THE WORLD SITUATION



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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY OF THE UNITED STATES

SUMMARY

1. Two major trends in the structure of power relationships among non-Soviet nations have begun to appear as of the end of 1949: (a) limited but steady growth of UN institutions; (b) regional association, particularly in Europe, in the interests of military security and economic development. Both trends are compatible with US security interests.
2. Western European regionalization, in potential strength as well as in difficulties and dangers, is a critical laboratory experiment in a field of international relations, of major importance to US security.
 - a. The UK will accept a full share of regional responsibility for military security, will participate to a limited extent in regional political associations, but will not merge economically with the continental nations.
 - b. Economic "integration" of continental Western Europe will progress very slowly. It is likely to succeed only if it does not bring industrial dislocation and temporary unemployment of any consequence and if the regional economy fits into a balanced pattern of trade and economic growth in the entire non-Soviet world, including the US.
 - c. Bringing West Germany into the Western European region as an equal partner with France is the immediate problem. France will try to keep Germany from dominating the partnership through (i) UK and US influence in Atlantic Pact affairs, (ii) transformation of the Council of Europe into a quasi-government with the UK as constituent member, (iii) protection of industry by cartelization.
 - d. There is strong popular and governmental support of cartelization of industry as a stabilizing device in the Western European economy, and "decartelization" measures probably will be simply government controls over the more restrictive practices of cartels. The current trend, therefore, is toward a cartelized continental Western European bloc, led by France and Germany and organized to promote regional interests while protecting politically and economically dominant groups in each nation. The balance struck between France and Germany will go far toward determining the progress of regional association in Western Europe and its contribution to the security of the non-Soviet world.
 - e. The USSR will try to frustrate progress toward Western European regionalism while proceeding with the Soviet "integration" scheme in Eastern Europe.
 - f. East-West trade in Europe, funneling through Germany, is a threat to Western European regionalization, but it will not be a critical danger if Germany joins a Western bloc and through it has access to markets and raw materials in Western Europe, European colonies, and the rest of the non-Soviet world.
3. The political and economic stability of the Near East is unlikely to increase in the foreseeable future as a result of regional association along European lines. There is little community of interest, and limited Arab sub-regional efforts toward collective action have failed.
4. Asiatic states also feel little community of interest except in the general drive toward nationalism, which has been mainly directed against European imperialism. Regionalism in Asia will help very little in containing So-

Note: This review has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and the Air Force. The information herein is as of 16 December 1949.

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viet influence and developing military, political, and economic strength among non-Soviet nations.

5. In the Western Hemisphere, where successful regional cooperation has a long history,

developments of the past two years have weakened the power potential of Hemisphere solidarity. These developments have not, however, affected the generally anti-Soviet orientation of Latin America.

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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY OF THE UNITED STATES

1. General Trends in the Structure of Non-Soviet Power.

As the postwar power conflict gradually has divided nations into two camps, Soviet and non-Soviet, two major trends have begun to take shape in relationships among the nations in the non-Soviet world. In the past month UN activities associated with the Fourth General Assembly and the signature of the Bonn Protocol on Germany have pointed out the main direction events are taking. The trends may be accelerated or reversed as circumstances change. In any case, however, they have a direct bearing on US security. As they appear at the end of 1949, these trends are: (a) limited but steady development of UN institutions; (b) increasing emphasis on regional association of groups of nations in the interests of military security and economic development.

a. The UN.

Whatever hopes may have existed that the UN would be an effective world-wide pacification league expired very quickly during the postwar period of Soviet expansion in Eurasia and Soviet introduction of the vocabulary of the "class struggle" into postwar diplomacy. Nevertheless, the UN is a going concern and its prestige is on the upgrade. The USSR has remained in the UN. As long as the UN remains a relatively loose association of nations, the USSR probably will remain a member, if for no other reason than to prevent it from turning into an effective anti-Soviet league. The UN, particularly the General Assembly, has provided an effective arena for developing and presenting US views on international issues of all kinds, mobilizing international support for those views, and dissecting Soviet propaganda. The USSR also has had its UN propaganda successes. In the General Assembly session just ended, however, resentment against Soviet aims and tactics was ar-

ticulated more sharply than ever before, and basic US policies won fairly uniform small-power support. However little "world opinion" may influence the Politbureau and its domains, psychological warfare in the UN increasingly has worked to the advantage of the US in its relations with other non-Soviet nations.

Finally, where the USSR has not been directly and vitally affected, the UN machinery has contributed a badly needed element of stability in areas (such as Palestine and Indonesia) that otherwise almost certainly would have become permanent economic and political losses or liabilities of the Western world. These gains are comparatively slight and far from secure, but they hold out hope for the future. The UN machinery also provides the basis for the gradual liquidation of European colonial problems with as little disorder or economic and social dislocation as possible. It also provides a systematic way to begin to develop economically retarded nations. Despite Soviet non-cooperation and occasional bursts of unrealism or intransigence on the part of the small powers, the UN is furthering the development of an orderly, legalistic relationship binding together for mutual advantage the nations of the non-Soviet world. This relationship is a favorable environment for the advancement of US security interests.

b. Regionalism.

Apart from generally cooperating with UN institutions and objectives, the non-Soviet nations of the world might have moved to organize their defensive power and promote their respective political and economic interests in any one of several ways. Conceivably a single, tight bloc of all non-Soviet nations might have formed, probably under US leadership. More likely, a third force might have begun to coalesce within the non-Soviet world, presumably under British leadership, and tried to reach a power position more or less on a level

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with the US and the USSR. This concept is not dead. It has provided much of the life in the Western Europe "integration" movement, particularly as sponsored by Churchill and Spaak. Other nations, particularly India, also aspire to eventual leadership of some third force association. But only the UK has any prospect of success in the immediate future, and the British Government has been unwilling to commit the UK to the third force idea. Instead, the UK has sought to remain a partner with the US in organizing a single, loose power grouping embracing all non-Soviet nations. UK policies and commitments have coincided sufficiently with US security interests in most areas to permit efficient cooperation on these terms. On the whole the failure of a third world force to begin to take shape has been an advantage to the US.

Instead of a single non-Soviet bloc or a third force alongside the US, a loose grouping of regional associations is the ultimate end toward which the non-Soviet world is beginning haltingly to move. While the UK and the US jointly are working to strengthen the entire non-Soviet area, they are doing so most effectively in Europe, where their efforts fit into the embryonic plans of a group of nations trying to associate in a regional program of military security and—in the long run—political and economic development.

Regionalism has proved about the only feasible way short of naked imperialism that the sovereign states of the Western world can modify and partially harmonize their conflicting national interests. Nationalism, damaging as it often has been to international peace and security, is probably the strongest single force of opposition to Soviet domination. Therefore the destruction of nationalism today, assuming the possibility, would be disadvantageous to US security. But the modification of nationally defined interests in the light of regional interests is in line with US aims. Under the pressure of a common threat from the USSR, nations with similar geographic situations and comparable cultural environments have begun to transform nationalism into regionalism.

This incipient trend toward regionalism is mainly evident in Europe. Assuming the durability of nationalism and the prolongation of the US-Soviet power conflict, a loose grouping of regional associations will be for many years the most effective power structure toward which non-Soviet nations can move. The development of such a grouping of nations and the extent to which it is compatible with US interests will depend on three basic factors: (a) the impetus given by hostile manifestations of Soviet policy in world affairs; (b) the strength of regional sentiments and regional institutions; and (c) the capacity of the US and the UK, working through UN institutions as well as by direct diplomacy, to bring about adjustments in regional programs that will bring them into harmony with the general interests of the Western world.

2. Western European Regionalism.

The first and most critical laboratory experiment with the regional approach to military security, political cooperation, and economic growth in the non-Soviet world is under way in Western Europe. In that region exists the major power potential of the Western world outside the US. There the power conflict between the USSR and the Western world has stabilized along a Central European front, roughly the Luebeck-Trieste line and its Balkan (Yugoslav) extension, as yet unanchored. Barring the outbreak of open war, the conflict will consist of Soviet-inspired subversive and revolutionary activities pitched against Western efforts to achieve political and economic stability. The experiment cannot be written down finally as success or failure for many years, but the persistence and the rate of progress of the trend toward regionalism in Western Europe during the next two or three years will be one of the prime factors affecting US security calculations.

The difficulties and potential dangers of regionalization are apparent in Western Europe, as elsewhere. One major difficulty lies in defining the boundaries of a region large enough to generate consequential power in international affairs yet bound together by a strong community of cultural, political, economic, and military interests. One major danger lies

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in bringing Germany into a Western European region without permitting Germany either to dominate it or to desert it for an Eastern European-Soviet orientation.

a. European Regionalism and the UK.

Regional accommodation of aims among Western European nations is taking place within an overlapping series of European committees ranging in membership from the OEEC (all the ERP nations) to Western Union (UK, France, and Benelux) or the embryonic Continental economic union (France, Italy, and Benelux). This uneven organizational structure permits each element to develop as fast as its member nations will go. It also permits the UK to work for European regionalism in some contexts without becoming irrevocably bound up in regional undertakings that the UK encourages but does not choose to join. As a result, for some time European regionalism is likely to develop with the UK neither entirely in nor entirely out.

The British Government takes very seriously its responsibility for a full share in the military defense of continental Western Europe. British military leaders are considering the commitment of a definite number of British divisions to the continent and the rearming of Germans. Politically the British participate in the Council of Europe, but they have exerted strong influence to restrain any tendency of the Council to approximate the status of a supra-national government. Since the French are eager to have the British involved politically on the continent as a guarantee against German domination, and since Churchill's promotion of European "unification" has found considerable popular support in England, the UK probably will continue to move toward a closer political relationship with the Continent. No British government, however, will cultivate such connections at the expense of a deterioration in Commonwealth relations. The British will not give up any substantial measure of sovereignty, and probably the refusal of the UK to become a member of any emergent European federation will be the greatest obstacle to the formation of a tight regional association of Western European states.

In economic relationships, similarly, the UK will not join any kind of union, but will encourage a movement among continental nations to form such a union and will cooperate with it. At the same time it will continue its efforts to increase the stability and prosperity of the sterling area—a policy not incompatible with the encouragement of continental European economic "integration." Economic improvement in one area will redound to the advantage of the other.

The British attitude, therefore, calls for three levels of participation in European regional affairs: (a) acceptance of a full share of responsibility for regional military security; (b) participation in regional political associations mainly to influence European policy towards the larger US-UK policy for the whole non-Soviet world; (c) promotion of economic stability both in continental Europe and in the sterling area, but without a merging or "integrating" of the latter with the former.

This British approach to regionalism in Europe does not conflict with US aims. From the military point of view, British regional commitments will be as great as the UK economy allows. Economically, the British may be unduly apprehensive about the damaging effects "integration" with the continent might have on economic stability and standards of living in the UK. But the British tendency to stand aloof will not in itself prevent continental nations from taking the essential preliminary steps toward unification. Finally, the political role of the UK almost certainly will be more favorable to US interests than if the UK merged with a continental union, especially if such a union in time tried to act as a third force in world affairs.

b. Continental Economic "Integration."

Whatever the UK does, regional "integration" or rationalization of the national economies of continental Western Europe will progress only gradually in the next few years. The contemplated French, Italian, and Benelux (Fritalux) economic bloc is making very slow initial progress. In the next few months Western Europe will begin to work toward an improved, multilateral clearing union to facilitate payments and increase the

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convertibility of currencies among the member nations. Some success is probable. On the other hand, simultaneous attempts to coordinate fiscal, credit, commercial, and exchange policies among the same nations, are unlikely to achieve very much within the next year. All of these preliminary steps in Western European economic "integration" will take time. Regardless of long-range economic benefits, probably they will never get whole-hearted support unless governments, industrialists, and labor leaders become convinced that "integration" will not entail even temporary industrial dislocation and unemployment of any consequence.

Many Europeans believe that building a "free-trade" bloc and an "internal mass market" is a distant ideal if not wholly an illusion. There is considerable uncertainty about the chances that "integration" will solve the basic economic problem of inability to compete with the US in US and world markets. There is also fear that long-range benefits in any case will not come in time to offset the social and political dislocations that would result from efforts to rationalize the continental economy. Some reduction of profits from capital investment and at least temporary, local unemployment would follow the elimination of industries now able to survive because they have a protected home market. The moderate middle group of parties now dominant in the Western European nations would lose political control if the dislocating effects of rationalization were not offset quickly by regional benefits. Consequently substantial progress toward economic unification on the continent is much less likely to come if sole reliance is put on the eventual "mass market" in Europe than if measures to this end accompany other, extra-regional economic developments. Such extra-regional developments might be increased US imports or the development of Africa, the Near and Far East, and Latin America as markets and sources of food and raw materials for Europe. Regional "integration" is no economic panacea for Europe. It is likely to succeed only if the regional economy fits into a balanced pattern of trade and economic growth in the entire non-Soviet world, including the US.

c. Franco-German Partnership.

Whatever the context of initial steps toward economic "integration" in continental Western Europe, bringing in the West German state as a member of the region eventually will be necessary. The Bonn Protocol officially marks the beginning of a conscious effort by the Western Powers to bind Germany tightly to Western Europe with ties of political and economic interest. If the effort succeeds, any future disruption in artificially divided Central Europe will find the fifty million West Germans lending economic and eventually military strength to the Western European region. A corollary advantage would be the magnetic attraction a West German orientation toward Western Europe would have on the Soviet-Zone Germans. The French, despite strong misgivings, have accepted this program. Whatever the French do in the Fritalux association will stand or fall finally according to whether the association can accommodate Germany as a member. The proper time for full partnership between France and Germany cannot be far off. The Western Powers have travelled the long path from the Morgenthau Plan to the Bonn Protocol in four years, and French leaders of the moderate middle parties can point to no other course than to take the remaining steps toward Franco-German partnership whenever it is politically feasible at home.

In facing up to this regional prospect the French are tending to rely on three devices to keep Germany from quickly becoming the senior partner in the Western European firm. First, of course, is the influence of France's stronger associates in the Atlantic Pact defensive system, which ties Western Europe into the US and British security sphere. Second, France is relying on the development of regional political institutions. The French Assembly recently has made extraordinary commitments in the direction of limiting its own sovereign powers in the interests of transforming the Council of Europe into a quasi-government with limited but effective legislative and executive powers. If the British can be entangled politically on the continent, French chances will increase of bringing effective supra-national pressures to bear on

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Germany apart from the High Commission, where France can be and usually has been outvoted. Finally, the French are preparing to weather whatever economic storms lie ahead by establishing "investment" agreements or cartels to protect industries that probably would suffer from German competition.

d. Cartelization and Regionalism.

The French will find the Germans, as well as other Europeans, sympathetic to cartelization. There is a strong trend toward renewed activity in forming combines, trusts, and industrial agreements of every kind in Western Europe, particularly in West Germany and especially in the steel and chemical industries, where French and German interests are competitive. As yet these cartel arrangements are not wholly restrictive, since production has been expanding in most areas and the market is only beginning to require sharp competition. There is in fact some tendency toward vigorous competition designed to justify favorable allocations of markets in future cartel negotiations. But it is clear that the influential elements of society in West Germany, including the labor organizations, favor some form of cartelization as a means of providing industrial stability and regular employment. Similar strong support of cartels exists in France and Italy, as well as in the UK and in most of the small European powers. Under these circumstances, cartels will remain an integral part of the economic structure of Western Europe, and "decartelization" measures everywhere probably will be simply measures for government control of the more restrictive practices of cartels.

If the more restrictive practices of cartels can be controlled, and European economic ills partially remedied by building up extra-European trade relationships, progress toward regionalism within the context of the present economic structure is feasible. Such economic regionalism would take several years to show substantial results, but it is more likely to come about than an alteration of the present economic system in any way that Western Europeans believe will bring German domination of industry or serious unemployment.

The current trend is toward a cartelized continental Western European bloc, led by France and Germany and organized to promote regional interests while protecting politically and economically dominant groups in each nation. This regional bloc would work on internal problems, but it would also make itself felt in negotiations with the UK and US. The common concern of Atlantic Pact nations for military security will be the basis of continental European pressure for concessions from the UK and the US on political and economic issues. The Germans have nothing to lose and a great deal to gain by cooperating with the French in such a regional association, although they may try to bargain with the threat of orienting West Germany toward the USSR. The French have a great deal to lose unless they can maintain a stable and growing economy, a prospect unlikely except within a regional economic bloc. The balance that can be struck between France and Germany will go far in determining the progress of regional association in Western Europe and its contribution to the security of the non-Soviet world.

e. The USSR and Germany.

The USSR views apprehensively the new phase of Western occupation policy inaugurated with the establishment of the West German Federal Republic and formally confirmed by the Bonn Protocol. Germany is not only the key element in Western Europe but (with Yugoslavia) is one of the two uncertain areas on the Central European dividing line between Soviet and Western power. The USSR will try to frustrate Western plans, relying mainly on propaganda, slanted to the French in particular, about the menace of a resurgent, re-militarized Germany.

At the same time the Kremlin will proceed methodically with its own "integration" scheme in Eastern Europe, which for the time being includes Eastern Germany. The more successful Franco-German cooperation and Western European regionalization are, the more secure will the USSR try to make its control over the entire satellite area. Meanwhile, before Western European regionalism becomes a positive threat to the Soviet orbit,

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the Politbureau will have to make a policy decision concerning Yugoslavia. As yet the USSR is trying to dispose of Tito by a combination of subversion and artificially inspired guerrilla action. If this attempt does not succeed within two or three months, the USSR will have to face the grave risks of direct military action or reluctantly accept the northeast Yugoslav frontier rather than the Dalmatian coast as the Balkan line delimiting the Soviet sphere of influence.

f. East-West Trade.

The strongest card in the Soviet hand in Western Europe is a limited but significant trade link between Germany and the satellite states of Eastern Europe. The economies of the Soviet orbit and Germany are in general complementary to one another. The USSR has vast and varied natural resources and a great supply of unskilled labor but is short of technical and managerial skills. Germany is densely populated and has abundant skills for the utilization of natural resources in modern production, but is generally deficient in foodstuffs and in most industrial raw materials. Since the war the diligent efforts of the USSR and the satellite states to obtain West German and other Western products testify to the economic importance of Western Europe to the Soviet orbit.

The immediate Soviet objective in promoting East-West trade is to obtain urgently needed industrial materials and equipment in circumvention of export controls. As production increases, it will be more difficult to keep Western European industry from supplying Soviet needs. Failure of the Western world to provide foodstuffs, raw materials, and markets sufficient to support full-scale German industrial development would tend to force Germany into closer commercial relations with the USSR and the satellite states. Under present economic conditions, increasing West German industrial productivity will create strong pressures among the Western European nations to avoid competition in their home and colonial markets by excluding German imports. In time the USSR probably counts on these pressures to achieve an eastward orientation of West German trade and eventually complete Soviet control of Germany.

There is no simple solution to the threat of the economic attraction the Soviet sphere has for Germany. East-West trade is a commercial advantage to Western Europe as well as a threat, and it will probably continue to expand. It will become a critical danger only if the USSR has the power to disrupt Western European economies by cutting off the flow of commodities on which the Western nations have come to depend for stability. This is much less likely to happen if Germany does not depend on East-West trade to any great extent but is part of a regional economic bloc with extensive markets and sources of raw materials in Western Europe, the European colonies, and other regions of the non-Soviet world. Under such favorable conditions of trade, Western Europe could absorb a greatly expanded volume of German exports and thereby increase the general standard of living. In these circumstances East-West trade probably would weaken Soviet domination of Eastern Europe as much or more than it would imperil the stability of Western Europe.

3. Near East.

Soviet drives toward expansion of Soviet influence in the Near East have been contained at least temporarily on the northern Greek-Turkish-Iranian frontier line. The USSR is trying simultaneously to break down this defense line and to disrupt the unstable political and economic structures behind it. The development of an effective Near Eastern regional association to strengthen the defense-in-depth of this area in the foreseeable future is extremely unlikely.

There is little feeling of community of interest among the Near Eastern countries. Greece and Turkey, which take every opportunity to identify their interests with those of Western Europe, have few ties with Israel, the Arab states, and Iran. Israel is almost completely isolated from the other Near Eastern states. Even among the Arab states, political instability, economic dislocation, and mutual distrust among Arab political leaders have prevented the formation of an effective subregional association. The Arab states not only are preoccupied with their own disunity, but also have few ties with neighboring Moslem states

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and are bitterly antagonistic toward Israel. The Palestine War has all but destroyed the Arab League. Israel, while attempting to improve its relations with individual Arab states, will do all it can to obstruct Arab unity in the future. For many years, such stability as there may be in the Near East will come from a strained accommodation among suspicious neighbors rather than from real regional cooperation.

4. Far East.

In comparison with Europe, little feeling of regional community of interest has developed among the Asiatic states. The peoples are locally compartmentalized, and the main common concern of Asiatic political leaders is nationalism. Drives toward national independence so far have been directed primarily against European imperialism. Consequently, Asiatic nationalism is vulnerable to exploitation along international Communist lines as laid down by the USSR. Economic forces favoring regional unification in Asia are slight, although industrial expansion in Japan and India would make the currently primitive economic relationships between food-surplus and food-deficit areas more complementary.

Efforts of the stronger states to dominate all or part of the non-Soviet region of the Far East and collective counteraction by regional groupings of the weaker states may develop during the next decade. In this sense of regionalization, however, Chinese efforts to establish Asiatic hegemony through an expansion of Communist influence probably will be as comprehensive and thorough as efforts by India or Japan. India would enter into a regional association only if it were under Indian leadership and then only if it avoided the appearance of being an instrument of US and Western European policy. Japan would welcome regionalization under US sponsorship as a security measure and as a way of regaining international stature. On the other hand, opposition to any moves facilitating Indian domination of Asia is strong in Pakistan, where in recent months popular and governmental bitterness toward India has reached a dangerous level of intensity over the Kashmir dispute. In

general the smaller states would give little support to a regional association if India and Japan participated primarily in an effort to expand their respective spheres of influence.

It will probably take a generation to reach a more advanced stage of regionalization, characterized by political cooperation and mutual attempts to encourage trade patterns advantageous for the region as a whole. In the meantime such tendencies as there are toward Asiatic regionalism will help very little in containing Soviet influence, stabilizing a line roughly separating the Western and Soviet spheres, and developing military, political, and economic strength on the Western side of the line. Major trends affecting these long-range interests of the US have not yet taken definite shape. In the next few months some positive indications of the direction of events will begin to appear as (a) the establishment of the United States of Indonesia progresses, (b) France loses or holds Indochina, (c) the Communist government in China encounters the problems of political and economic reconstruction, and (d) the timing and character of a Japanese peace treaty are worked out.

5. Latin America.

In the Western Hemisphere, where successful regional cooperation has a long history, developments since the signing of the Rio treaty in 1947 have weakened the power potential of Hemisphere solidarity. These developments have not, however, affected the generally anti-Soviet orientation of Latin America.

The Latin American countries have tended to disagree over the extent to which the inter-American system should seek to enforce on members the obligation to follow democratic procedures. Some of the countries feel that US recognition of governments created by military force is contrary to declared US and Hemisphere policy. In addition, the US capacity to exercise leadership in the region has suffered. There is widespread disappointment over the concentration of US attention on economic assistance outside the Hemisphere, and there is a great deal of resistance to US advocacy of multilateral rather than bilateral trade agreements. Finally, the recent

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advent to power in Panama and Colombia of presidents with strongly anti-US records will make dealings with their governments more difficult.

In UN organizations the Latin American countries sometimes decide in caucus how to vote and adhere to the caucus decision (particularly in vote-trading arrangements with other groups). At other times they vote in-

dependently, as on the Spanish issue and on the internationalization of Jerusalem. Occasionally, where no direct Western security issue is involved, they oppose the US and are influential in forcing compromises, as on the Italian colonies question. On the whole, however, the majority of them support the US on US-Soviet issues if the US position is made clear.

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